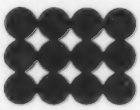


NEWFOUNDLAND
LIQUOR
CORPORATION

1986 ANNUAL REPORT

93-02661/

NEWFOUNDLAND
LIQUOR
CORPORATION

Honourable J. F. Collins, F.R.C.P.(E)
Minister of Finance
Government of Newfoundland & Labrador
Confederation Building
St. John's, Newfoundland
A1C 5T7

Dear Mr. Minister:

I am pleased to submit the 13th annual report of the Newfoundland Liquor Corporation.

The report summarizes the Corporation's activities during the fiscal year ending March 31, 1986 and outlines a financial comparison with the previous year.

We gratefully acknowledge the contribution of all the Corporation's employees whose positive efforts contributed to our progress during the past year.

Yours very truly,

DOUGLAS M. CHAFE, C.M.A.
President.

P.O. BOX 8750, STATION "A", KENMOUNT ROAD, ST. JOHN'S, NEWFOUNDLAND A1B 3V1 • TELEPHONE (709) 754-1100

During the year ended March 31, 1986, the Corporation realized a net income of $80,854,319 - an increase of $7,885,637 over the previous year.

This income was derived from two sources:

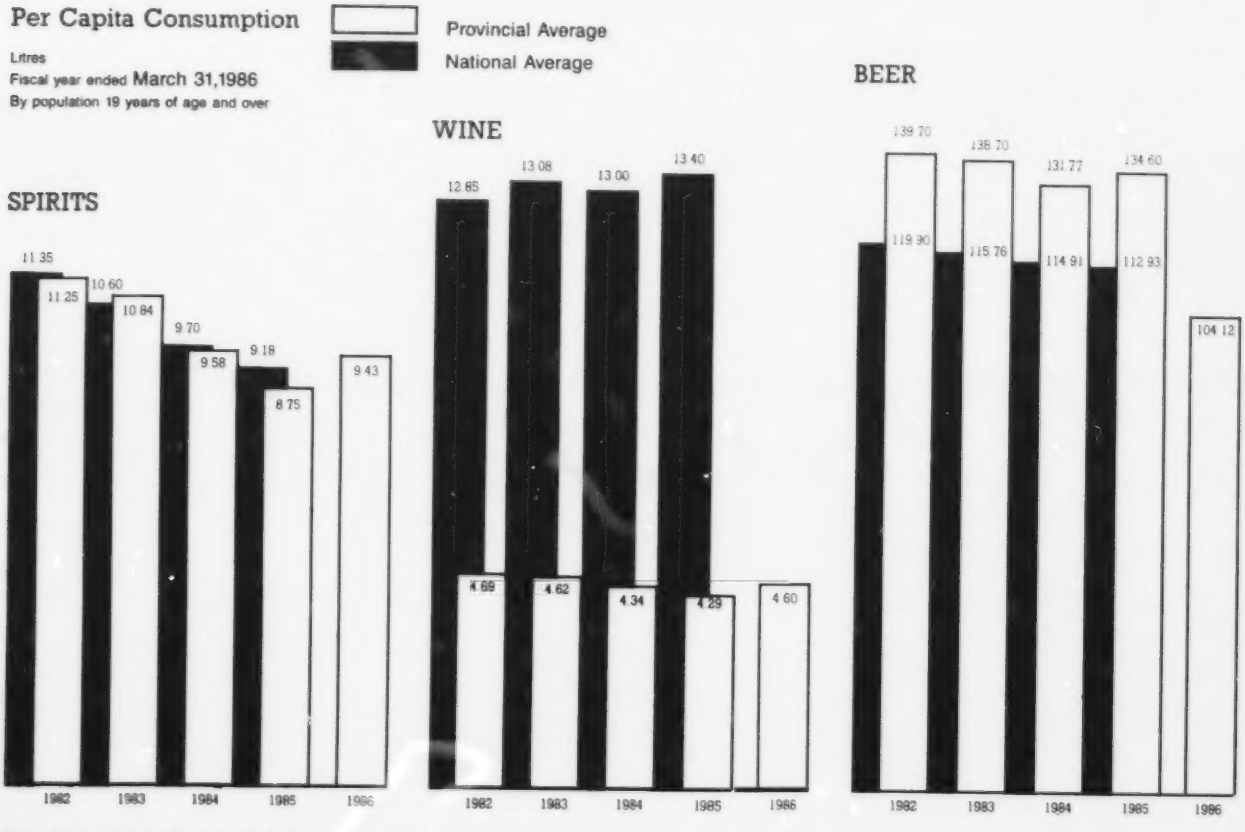
1. $66,643,786 - from sales of spirits, wine, and beer through Corporation Liquor Stores and Liquor Agency Stores; and
2. $14,210,533 - through the collection of a Corporation mark-up on local beer.

Corporation Liquor Store and Agency Store operations resulted in sales of $146,742,146 - an increase of $67,330,464 over the previous year. Income from beer commissions totalled $14,210,533 - a decrease of $23,483,311 from the previous year.

These large differentials, both positive and negative, were due entirely to a labour dispute in the local brewing industry which lasted over seven months. The dispute also affected operating and administrative expenses which totalled $12,111,773 for the 1985/86 fiscal year — an increase of $974,670 over fiscal 1984/85.

The unavailability of Canadian brands and the necessary importation of large quantities of European and American beer impacted on all areas of activity of the Corporation. The resolution of the situation after seven months left liquor stores with large amounts of imported beer as the market was dramatically reduced.

The absence of local beer in Corporation stores during Christmas resulted in some depletion of imported beer inventories; however, price reductions were required for American beer during January and February in order to dispose of the inventory.



The decrease in beer and the increase in spirits and wine for 1986 was due to 7 1/2 month labour dispute in the Brewing industry.

As a result of the dispute, Store Operations was required to handle large inventories of imported beer, increased customer traffic, staff scheduling problems, etcetera; Production & Distribution normally purchases and distributes 600,000 dozen assorted spirits, wines and beer – during the year, an additional 5,700,000 dozen imported beer were purchased and distributed. In addition to this, a distribution network using about 50% of the existing brewery distributors to deliver beer to licensed establishments and brewers agents, was set up. The Finance department set up new systems to handle the additional volumes of beer; and the Personnel department provided sufficient manpower at short notice. The Audit department monitored increased store inventories, as well as inventories stored in outside warehousing.

It is estimated that the Corporation was able to supply close to 75% of the market's requirement for beer during this period. This was achieved through the efforts of all Corporation employees, and with the willing co-operation of distributors, suppliers, shipping companies and trucking companies.

A major emphasis during the year continued to be placed on staff training, both procedural and product knowledge. This included Managers' seminars; product information seminars; as well as selective management training, both inside and outside the Province.

On July 24, 1985, a three year Collective Agreement was signed with the Newfoundland Association of Public Employees.

Salaries remained unchanged in the first year, with a wage reopener provision for the second and third years. Contract language changes were primarily in the areas affecting temporary employees and promotion.

In the marketplace, new agencies were established in Gander Bay, Hermitage, Torbay, and Goulds. In addition to this, the Wabush Liquor Store was closed and replaced by an Agency Store. The Corporation presently operates thirty-seven Liquor Stores and fifty-two Agency Stores.

The production of case goods in the Bottling Plant increased this year by 3% to 126,000 cases – 35,000 cases of this total represents sales to other provinces which were up slightly over the previous year.

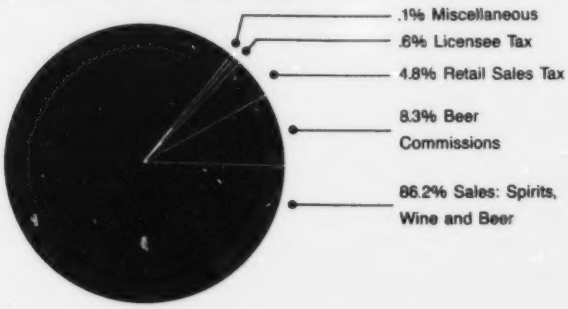
The popularity of the miniature 50 ml. bottle continued this year. Production of this size increased 155%, primarily due to contract bottling for suppliers who are not equipped to produce this size.

During the year, the Corporation participated in a management classification review initiated through the Provincial Treasury Board. Managerial, supervisory, and non-bargaining support staff positions were evaluated using the Hay Associates Systems. Because of the involvement of all areas of the Provincial Government in this review system, results are not expected to be finalized until fiscal year 1987.

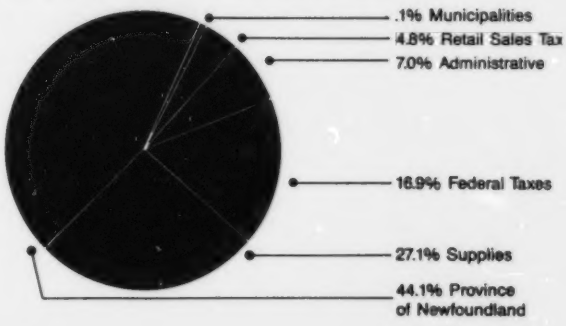
The final plan for consolidating the computer processing requirements was approved; and an IBM System 38 was purchased and installed during December 1985. This new installation will enable the Corporation to process all of its requirements in-house, providing a more effective and efficient management information system.

The effort put forward by employees, and the support from the Board of Directors during the year are gratefully acknowledged.

SOURCE OF REVENUE



APPLICATION OF REVENUE



Auditor's Report

To the President and Members
Newfoundland Liquor Corporation
St. John's, Newfoundland

I have examined the balance sheet of the Newfoundland Liquor Corporation as at 31 March 1986 and the statements of income, retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at 31 March 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

J.F. McGrath, C.A.
Auditor General

St. John's, Newfoundland
18 September 1986

Balance Sheet, March 31, 1986

Assets

	1986	1985
Current		
Cash	**$ 10,003,353**	$ 4,388,060
Accounts receivable (Note 2)	**638,654**	754,604
Beer commissions receivable	**2,607,548**	3,924,829
Inventories, at cost (Note 3)	**13,487,643**	11,834,693
Prepaid expenses	**106,545**	134,928
Total current assets	**26,843,743**	21,037,114
Fixed assets, at cost less accumulated depreciation (Notes 1(a) and 4)	**2,182,392**	2,257,781
Other assets, at cost less accumulated amortization (Notes 1(b) (c) (d) and 5)	**709,256**	510,234
Total assets	**$29,735,391**	$23,805,129

Liabilities and Retained Earnings

	1986	1985
Current		
Accounts payable	**$ 2,580,851**	$ 2,406,019
Accrued liabilities (Note 1(e))	**3,418,253**	3,281,751
Current portion of obligation under capital lease (Note 6)	**39,576**	—
Current portion of long-term debt (Note 7)	**400,000**	400,000
Total current liabilities	**6,438,680**	6,087,770
Obligation under capital lease (Note 6)	**225,033**	—
Long-term debt (Note 7)	**1,800,000**	2,200,000
	8,463,713	8,287,770
Retained earnings		
Due to Province of Newfoundland	**21,271,678**	15,517,359
Total liabilities and retained earnings	**$29,735,391**	$23,805,129

See accompanying notes

Signed on behalf of the Board

President

Director

Statement of Retained Earnings
For the Year Ended March 31, 1986

	1986	1985
Balance, beginning of year	**$15,517,359**	$12,548,677
Net income for the year	**80,854,319**	72,968,682
	96,371,678	85,517,359
Payments to the Province of Newfoundland	**75,100,000**	70,000,000
Balance, end of year	**$21,271,678**	$15,517,359

See accompanying notes

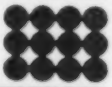
Statement of Income
For the Year Ended March 31, 1986

	1986	1985
Sales	**$146,742,146**	$79,411,682
Cost of goods sold		
Inventory, beginning of year	**11,834,693**	10,320,882
Purchases	**70,832,830**	35,554,515
Cost of goods available for sale	**82,667,523**	45,875,397
Less: Inventory, end of year	**13,487,643**	11,834,693
	69,179,880	34,040,704
Gross profit	**77,562,266**	45,370,978
Other operating income		
Commission on licensee purchases	**1,072,794**	910,612
Miscellaneous	**120,499**	130,351
	1,193,293	1,040,963
	78,755,559	46,411,941
Expenses		
Administrative and operating (Schedule I)	**12,111,773**	11,137,103
Net income from liquor store operations	**66,643,786**	35,274,838
Commission revenue on sale of beer	**14,210,533**	37,693,844
Net income for the year	**$80,854,319**	$72,968,682

See accompanying notes

Statement of Changes in Financial Position

Year Ended March 31, 1986



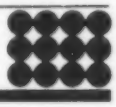
	1986	1985
Funds provided:		
From operations		
Net income from liquor store operations	**$66,643,786**	$35,274,838
Commission revenue on sale of beer	**14,210,533**	37,693,844
Add (deduct) items not resulting in an inflow (outflow) of funds:		
Depreciation	**333,233**	317,036
Amortization	**124,756**	141,832
Loss (gain) on disposal of fixed assets	**1,075**	(7,088)
	81,313,383	73,420,462
Proceeds from disposal of fixed assets	**8,769**	17,192
Proceeds from capital lease	**273,927**	—
	81,596,079	73,437,654
Funds applied		
Payments to the Province of Newfoundland	**75,100,000**	70,000,000
Additions to fixed assets	**591,466**	319,341
Payments on obligation under capital lease (including increase in current portion)	**48,894**	—
Repayment of long-term debentures (including increase in current portion)	**400,000**	400,000
	76,140,360	70,719,341
Increase in working capital	**5,455,719**	2,718,313
Working capital, beginning of year	**14,949,344**	12,231,031
Working capital, end of year	**$20,405,063**	$14,949,344

See accompanying notes

Administrative and Operating Expenses

Year Ended March 31, 1986

	1986	1985
Salaries and employee benefits	**$6,034,838**	$ 5,981,212
Rent	**715,643**	620,699
Freight to stores	**732,344**	313,831
Agency store commissions and expenses	**1,931,198**	1,375,337
Municipal and school tax	**132,166**	142,716
Travel	**122,522**	122,601
Heat and light	**297,148**	273,071
Cleaning	**152,615**	147,569
Communications	**152,771**	121,890
Advertising	**15,227**	11,075
Computer services	**79,352**	84,751
Directors' fees and expenses	**5,625**	6,823
Interest and bank charges	**34,507**	46,945
Motor vehicle expenses	**3,014**	2,726
Consultants' fees	**34,656**	419,588
Security	**74,116**	50,990
Store supplies and wrapping	**102,947**	70,513
Stationery and office supplies	**120,222**	97,524
Postage	**31,831**	26,326
Repairs and maintenance	**230,710**	217,604
Inventory breakage and shortage	**206,646**	103,100
Marketing	**65,416**	38,771
Dues and subscriptions	**8,911**	7,639
Insurance	**18,334**	17,761
Professional fees	**6,794**	10,670
Depreciation	**248,596**	216,174
Amortization	**124,756**	139,032
Uniforms	**47,960**	42,851
Staff recruitment	**2,866**	9,169
Staff training	**40,135**	46,694
Miscellaneous	**21,325**	21,781
Labour negotiations and grievances	**2,202**	4,341
Loss (gain) on disposal of fixed assets	**1,075**	(7,088)
Bad debt expense	**10,967**	9,615
Interest on long term debt	**302,338**	342,802
	$12,111,773	$11,137,103



1. **Accounting policies**

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

(a) Fixed assets are capitalized at cost at the time of acquisition. Depreciation is recorded over the expected useful life of the asset on a straight line basis at the rates indicated in Note 4.

A full year's depreciation is recorded in the year of acquisition while no depreciation is taken on assets disposed of during the year.

The Blending Department's share of depreciation expense amounting to $84,637 ($100,862 in 1985) is allocated to cost of goods sold.

(b) Leasehold improvements are amortized on a straight line basis over the terms of the individual leases which range from 1 to 20 years.

Following is a schedule of amortization of leasehold improvements by location:

	1986	1985
Head office	**$ 81**	$ 20,692
Other locations	**102,681**	112,843
	$ 102,762	$ 133,535

(c) Interest in leased land as described in Note 5 is amortized on a straight line basis over the initial 30 year term. The amount charged to operations in 1985 and 1986 was $8,297.

(d) The equipment under the capital lease is amortized on a straight line basis over the term of the lease. The amount charged to operations in 1986 was $13,696.

(e) Federal taxes on inventory held in bond at year end are included in head office inventory and related liability accounts. As at 31 March the following amounts are included in accrued liabilities:

	1986	1985
Customs duty	**$ 1,394,920**	$ 1,459,290
Excise duty	**817,969**	731,939
Federal Sales Tax	**374,511**	376,557
	$ 2,587,400	$ 2,567,786

(f) The Corporation is a Crown Corporation and is therefore not subject to either Provincial or Federal income taxes.

2. **Accounts receivable**

	1986	1985
Trade	**$ 107,210**	$ 330,934
Claims	**72,375**	372,017
Other	**468,799**	60,266
	648,384	763,217
Less: Allowance for doubtful accounts	**9,730**	8,613
	$ 638,654	$ 754,604

3. **Inventories**

	1986	1985
Raw materials	**$ 841,433**	$ 815,504
Head office inventory	**5,220,100**	3,956,923
Branch stores inventory	**3,980,330**	3,191,972
Stock in transit	**758,325**	910,579
Finished goods	**2,687,455**	2,957,701
Work in process	**—**	2,014
	$13,487,643	$11,834,693

4. Fixed assets

	Depreciation Rate	Cost	Accumulated Depreciation	Net Book Value 1986	Net Book Value 1985
Land	—	$ 190,281	$ —	**$ 190,281**	$ 185,281
Buildings	5%	2,256,944	764,981	**1,491,963**	1,579,206
Store equipment and fixtures	20%	661,481	532,759	**128,722**	106,588
Motor vehicle	33⅓%	11,639	11,639	**—**	3,880
Office furniture and equipment	10 and 20%	459,630	305,050	**154,580**	98,787
Plant and warehouse equipment	20 and 33⅓%	1,069,938	853,092	**216,846**	284,039
		$ 4,649,913	$ 2,467,521	**$ 2,182,392**	$ 2,257,781

5. Other assets

	Cost	Accumulated Amortization	Net Book Value 1986	Net Book Value 1985
Leasehold improvements	$ 2,089,318	$ 1,847,731	**$ 241,587**	$ 294,499
Capital lease	273,927	13,696	**260,231**	—
Leased land	248,925	41,487	**207,438**	215,735
	$ 2,612,170	$ 1,902,914	**$ 709,256**	$ 510,234

The land is leased over an initial 30 year period at an annual rental of $4,800 with options to renew for an additional 140 years.

6. Obligations under capital lease

The following is a schedule of future minimum lease payments under the capital lease expiring 12 January 1991 together with the balance of the obligation under capital lease:

Year ending 31 March	
1987	$ 79,834
1988	79,834
1989	79,834
1990	79,834
1991	63,202
Total minimum lease payments	$ 382,538
Less: Amount representing interest	117,929
Current portion	39,576
	$ 225,033

7. Long-term debt

	1986	1985
A 12¼%, $2,000,000 debenture, issued to the National Trust Company Limited as Trustee for Prudential Insurance Company of America repayable in ten equal consecutive annual principal instalments of $200,000 commencing on 30 June 1984 and semi-annual interest payments on 30 June and 30 December, commencing 30 December 1983. The debenture is guaranteed unconditionally as to principal and interest by the Province of Newfoundland.	**1,600,000**	$ 1,800,000
An 11⅞%, $1,000,000 debenture, initially issued to the Mutual Life Assurance Company of Canada and presently held by Lake & Co., repayable in five equal consecutive annual principal instalments of $200,000 commencing on 27 March 1985 and semi-annual interest payments on 27 March and 27 September, commencing 27 September 1984. The debenture is guaranteed unconditionally as to principal and interest by the Province of Newfoundland.	**600,000**	800,000
	2,200,000	2,600,000
Less: Current portion	**400,000**	400,000
	$ 1,800,000	$ 2,200,000

8. Related party transactions

(a) The Corporation is leasing office and warehouse space rent free from a Crown Corporation, B.L.C. Building Corporation Limited; however, all operating and maintenance costs related to the building are the responsibility of the Corporation.

(b) The Corporation is leasing retail space for its Bell Island branch rent free from the Department of Public Works and Services; however, all operating and maintenance costs related to the building are the responsibility of the Corporation.

(c) The Corporation is leasing a building located in St. John's on Water Street rent free from the Department of Public Works and Services; however, all operating and maintenance costs related to the building are the responsibility of the Corporation.

9. Lease commitments

The Corporation has leases on file with terms ranging from 1 to 20 years covering retail outlets. Annual lease obligations during the next 5 years are as follows:

1987	$ 557,014
1988	487,263
1989	356,128
1990	261,347
1991	161,152
	$ 1,822,904

10. Comparative figures

During 1985, due to a labour dispute in the Newfoundland beer industry, the Corporation became totally involved in the importation, distribution and sale of beer. Beer normally sold by private enterprise was sold through Corporation outlets. This activity resulted in a significant increase in sales of spirits, wines, imported beer, cost of goods sold, net income from liquor store operations and a significant decrease in commission revenue on sale of beer. During the year sales increased by $67,000,000, cost of goods sold increased by $35,000,000, commission revenue on sale of beer decreased by $24,000,000 and net income increased by $8,000,000.

11. Pensions

The Public Service (Pensions) (Newfoundland Liquor Corporation) Regulations, 1974, made the Corporation and its staff subject to The Public Service (Pensions) Act with effect from 26 June 1973. Pension dues deducted from employees' salaries are matched by the Corporation and then remitted to the Province of Newfoundland (as of 1 July 1980 the Province of Newfoundland Pooled Pension Fund) from which pensions will be paid to employees when they retire.

BOARD OF DIRECTORS

Douglas M. Chafe, C.M.A.
President

Keith Griffiths
Vice-President, Operations

Dorothy Robbins, B.A.
Director

Gilbert C. Gill, C.A.
Director
(Representing Government of Newfoundland,
Treasury Board)

Peter F. Kennedy, B.Comm.
Director
(Representing Government of Newfoundland,
Dept. of Finance)

Cyril Banikhin
Director
(Chairman, Newfoundland Liquor Licensing Board)

Charles W. White, B. Comm., LL.B
Director

Edward P. Poole, Q.C.
Director